

**MOJAVE DESERT AIR QUALITY
MANAGEMENT DISTRICT**

**COUNTY OF SAN BERNARDINO
VICTORVILLE, CALIFORNIA**

**AUDITED FINANCIAL STATEMENTS
JUNE 30, 2016**

BURKEY COX EVANS & BRADFORD
Accountancy Corporation
1058 West Avenue M-14, Suite B
Palmdale, CA 93551

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
DISTRICT SUMMARY, GOVERNING BOARD AND PERSONNEL
JUNE 30, 2016**

DISTRICT SUMMARY

The Mojave Desert Air Quality Management District is a local agency with the primary responsibility for the development, implementation, monitoring, and enforcement of air pollution control strategies and motor vehicle use reduction measures. The District represents the citizens of the Mojave Desert district in influencing the decisions of other public and private agencies whose actions may have an adverse impact on air quality within the Mojave Desert district. The District began operations on July 1, 1993, by assuming the authority of the San Bernardino County Air Pollution Control District that ceased operations. The District is governed by an appointed Governing Board from areas within its boundaries.

As of June 30, 2016, the Governing Board consisted of the following:

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>REPRESENTED AREA</u>
Robert Lovingood	Chair	County of San Bernardino
Jim Cox	Vice Chair	City of Victorville
Ed Camargo	Member	City of Adelanto
Carmen Hernandez	Member	City of Barstow
Paul Russ	Member	City of Hesperia
Joseph "Joey" DeConinck	Member	City of Blythe
John J. Benoit	Member	County of Riverside
Jeff Williams	Member	City of Needles
Barbara Cram Riordan	Member	Public Member
Robert Leone	Member	Town of Yucca Valley
Barb Stanton	Member	Town of Apple Valley
John Cole	Member	City of Twenty-Nine Palms
James Ramos	Member	County of San Bernardino

PERSONNEL

Eldon Heaston -- Executive Director/Air Pollution Control Officer

Karen K. Nowak --District Counsel

Jean Bracy -- Deputy Director - Administration

Michele Baird -- Clerk of the Boards

Piero C. Dallarda -- Special Counsel

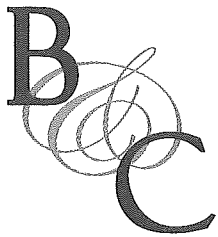
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FINANCIAL INFORMATION



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INDEPENDENT AUDITORS' REPORT

Governing Board
Mojave Desert Air Quality Management District
Victorville, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mojave Desert Air Quality Management District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's minimum audit requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, net pension liability and contributions, and funding progress information on pages 3-8 and 39-45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

Burkey & Cox CPAs

BURKEY COX EVANS & BRADFORD
Accountancy Corporation

Palmdale, California
November 16, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Mojave Desert Air Quality Management District
Management's Discussion and Analysis
June 30, 2016

Our discussion and analysis of the District's financial performance provides an overview of the financial activities for the fiscal year ended June 30, 2016. Please read this in conjunction the basic financial statements.

A. Financial Highlights

The assets of the District exceeded its liabilities (all funds) at the close of the most recent fiscal year by \$2,569,065 (*net position*). A reporting adjustment was made on June 30, 2015 to meet requirements for reporting the District's pension liability as required by the Governmental Accounting Standards Board (GASB) Statement No. 68. This pension liability estimates the future cost of providing District employees with retirement benefits which can impact the future use of resources. When applying all of this estimated future liability in the current year, the District's *unrestricted* use of resources is a negative amount (\$6,568,494). Recognizing that this future liability has associated resources, the District may use \$1,213,861 to finance the District's day-to-day operations without constraints established by legal requirements.

The District's governmental funds reported total fund balances of \$7,336,146 for the year; \$861,399 represented the unreserved fund balance.

B. Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements have three components: 1) Government-Wide Financial Statements; 2) Fund Financial Statements, and 3) Notes to the Basic Financial Statements. The District's report also includes required supplementary information to the basic financial statements.

In general, the purpose of financial reporting is to provide the external parties that read the financial statements with information that will help them make decisions or draw conclusions about an entity. In order to address the needs of as many parties as reasonably possible, the District, in accordance with required reporting standards, presents government-wide financial statements and fund financial statements.

Government-Wide Financial Statements

The focus of government wide financial statements is the overall financial position and activities of the District. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to commercial enterprises or a private-sector business. These financial statements include the Statement of Net Position and Statement of Activities.

Management's Discussion and Analysis
Mojave Desert Air Quality Management District

The *Statement of Net Position* (page 9) reports all assets held and liabilities owed by the District on a full accrual basis. The difference between the two is reported as *net position*. This difference is comparable to the total stockholders' equity presented by a commercial enterprise. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Under the reporting requirements of GASB Statement No. 68 many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows and outflows related to pension and the net pension liability to the reported net position.

The *Statement of Activities* (page 10) reports the net cost of the District's activities by program and is prepared on the full accrual basis. Revenues and expenses are recognized as earned and incurred even though they may not have been received or paid in cash.

The focus of the *Statement of Activities* is the cost of various program activities performed by the District. The statement begins with a column that identifies the cost of each of the District's major programs. Another set of columns identifies the revenues that are specifically related to these activities. The difference between the expenses and the revenues related to specific program activities represents the net cost of benefit of the program activity.

The District's government-wide financial statements are presented on pages 9 to 10 of this report.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole.

Governmental Funds

The fund financial statements consist of the *Balance Sheet* (page 11) and *Statement of Revenues, Expenditures, and Changes in Fund Balance* (page 13). These are prepared on the modified accrual basis of accounting. The government-wide financial statements are prepared on the full accrual basis.

In general, these financial statements under the modified accrual basis have a short-term emphasis and for the most part, measure and account for cash and receivables collectible within a very short period of time, as reported on the *Balance Sheet*. The capital assets such as land and buildings are not reported.

Fund liabilities include amounts that are to be paid within a very short period of time after the end of the fiscal year. The long-term liabilities are not included. The difference between a fund's total assets and total liabilities are not included. The difference between a fund's total assets and total liabilities represents the fund balance. The unreserved portion of the fund balance indicates the amount available to finance future activities.

The operating statements for governmental funds report only those revenues and expenditures that were collected in cash or paid with cash during the current period or very shortly after the end of the year.

The District's *Balance Sheet* is presented on page 11 and *Statement of Revenues, Expenditures, and Changes in Fund Balances* is presented on page 13 of this report.

The focus of the fund financial statement is narrower than that of the government-wide financial statements. Since different accounting bases are used to prepare the above statements, reconciliation is required to facilitate the comparison between the fund statements and the government-wide statements. The reconciliation between the total fund balances can be found on page 12 of this report.

The reconciliation of the total *Changes in Fund Balances for All Governmental Funds to the Change in Net Assets* can be found on page 14 of this report.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 17 to 38 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the budgetary comparison schedule and budgetary reconciliation.

C. Government-Wide Financial Analysis

Our analysis focuses on the net assets and the changes in net assets of the District's governmental activities.

The following schedule is a condensed *Statement of Net Position* as of the year ending June 30, 2016, as compared to the prior year.

Management's Discussion and Analysis
Mojave Desert Air Quality Management District

	June 30, 2015	June 30, 2016	Change
Assets:			
Current Assets	\$ 7,989,153	\$ 7,955,560	\$ (33,593)
Long-Term Assets	820,801	820,801	-
Capital Assets	2,835,843	2,662,812	(173,031)
Total Assets	11,645,797	11,439,173	(206,624)
Deferred Outflows of Resources:			
Pensions	2,750,213	3,456,502	706,289
Total Deferred Outflows of Resources	2,750,213	3,456,502	706,289
 Total Assets and Deferred Outflows of Resources	 \$ 14,396,010	 \$ 14,895,675	 \$ 499,665
Liabilities:			
Current Liabilities	\$ 509,336	\$ 577,109	\$ 67,773
Long-Term Liabilities	7,741,625	8,745,400	1,003,775
Total Liabilities	8,250,961	9,322,509	1,071,548
Deferred Inflows of Resources:			
Pensions	1,901,677	2,140,995	239,318
Unearned Revenues	1,027,234	863,106	(164,128)
Total Deferred Inflows of Resources	2,928,911	3,004,101	75,190
Net Position:			
Investments in Capital Assets	2,835,843	2,662,812	(173,031)
Restricted	5,748,776	6,474,747	725,971
Unrestricted	(5,368,481)	(6,568,494)	(1,200,013)
Total Net Position	3,216,138	2,569,065	(647,073)
 Total Liabilities, Deferred Inflows of Resources, and Net Position:	 \$ 14,396,010	 \$ 14,895,675	 \$ 499,665

At the close of the most recent fiscal year, the District's total assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$2,569,065.

The most significant variance of total net position for June 30, 2016 is related to the net pension liability of \$7,782,355 which is covered in detail in Note 11, on pages 29-36. The District is allocated its proportionate share of SBCERA's net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. Decisions regarding the allocations are made by the administrators of the pension plan, not by District management.

The largest portion of the District's net assets (88%) is restricted for special programs. These funds are restricted to expenditures for specific purposes. Capital assets reflect the District's investment in capital assets used by the District (e.g. land, buildings, equipment, software application development, and vehicles). The District uses these capital assets in carrying out its mission of protecting public health while being sensitive to the economic needs of local businesses. Consequently, these assets are not available for future spending. The remaining portion of the District's net assets is unrestricted, and unreserved, and may be used to meet the District's ongoing obligations in carrying out day-to-day operations.

Management's Discussion and Analysis
Mojave Desert Air Quality Management District

The following schedule is a condensed statement of changes in net position (all funds) as of fiscal year ending June 30, 2016, as compared to the prior year.

	June 30, 2015	June 30, 2016	Change
Revenues:			
Program Revenues	\$ 1,800,170	\$ 1,961,386	\$ 161,216
Charge for Services	5,176,923	6,008,496	831,573
General Revenue	19,026	36,806	17,780
Total Revenues	<u>6,996,119</u>	<u>8,006,688</u>	<u>1,010,569</u>
Expenditures:			
Expenditures	<u>6,514,179</u>	<u>8,653,759</u>	<u>2,139,580</u>
Total Expenses	<u>6,514,179</u>	<u>8,653,759</u>	<u>2,139,580</u>
Net Position:			
Change in Net Position	\$ 481,940	\$ (647,071)	\$ (1,129,011)

Governmental Activities

The objective of the *Statement of Activities* is to report the full cost of providing government services for the year. The format also permits the reader to ascertain the extent to which each function is either self-financing or draws from the general funds of the District.

The *Statement of Activities* presents information showing how the District's net position changed during fiscal year 2015-16. All changes in net position are reported as soon as the underlying event occurs regardless of the timing of the cash flows.

Fees, grants, state subvention, penalties, and settlements predominantly support the governmental programs of the District. The primary governmental activities of the District include the following: Permit Services and Enforcement, Air Monitoring, Public Education, Air Quality Analysis, and the Mobile Source Emission Reduction Program.

D. Financial Analysis of the District's Funds

Governmental Funds

At the end of the fiscal year, the District's *Changes in Fund Balances Governmental Funds* (page 13) reported an ending balance of \$7,336,146, an increase of \$58,103 in comparison with the prior year. Approximately 88% of this fund balance (\$6,474,747) are reserved and restricted for specific purposes. The long-term contractual commitments related to these restricted programs involve multiple-year spending. At the end of the fiscal year, the District's unreserved fund balance was \$861,399, a decrease of \$617,718 in comparison with the prior year. Use of the unreserved fund balance is unrestricted.

E. Capital Assets

The District's investment in capital assets of \$6,553,612 is for its governmental activities. The book value was \$2,662,812 (net of accumulated depreciation of \$3,890,800) as of June 30, 2016. This investment in capital assets includes land, buildings, and improvements, equipment for air

Management's Discussion and Analysis
Mojave Desert Air Quality Management District

monitoring stations, computer and office equipment, video conferencing equipment and District vehicles.

Additional information on the capital assets can be found in the "Notes to Financial Statements," page 27 of this report.

F. Economic Factors and Next Year's Budget

The FY 2016-17 General Fund expenses projected for operations and capital expenditures are \$6,975,416 with sufficient revenues, including the use of unassigned reserves, to pay for those services. The expenditure budget is a decrease of 3.6% from the prior fiscal year. This budget also includes continuing projects to improve the automated permit billing system, replacing and upgrading a remote air monitoring stations and office equipment, energy efficiency improvement projects, and training/development opportunities for governing board members and staff.

General Fund revenues are projected to be \$6,945,908, less than a one percent (.66%) increase from the prior fiscal year. The revenue budget includes a recommended 3% increase on all application and annual permit renewal fees. The potential use of reserves and increased revenues from the Carl Moyer Grant Program for administrative support contribute funding the District's activities.

G. Requests for Information

This financial report is designed to provide a general overview of the District's finances for readers of the financial statements. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Deputy Director / Administration, Mojave Desert Air Quality Management District, 14306 Park Avenue, Victorville, CA 92392-3210.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016

ASSETS

Cash and Investments	\$ 5,731,963
Receivables (net of allowances for uncollectibles)	2,179,615
Prepaid Items	43,982
Long Term Receivables	820,801
Capital Assets (net of accumulated depreciation)	<u>2,662,812</u>
Total Assets	<u>11,439,173</u>

DEFERRED OUTFLOWS OF RESOURCES

Pensions	<u>3,456,502</u>
Total Assets and Deferred Outflows of Resources	<u>14,895,675</u>

LIABILITIES

Accounts Payable and Other Current Liabilities	370,241
Due to Other Government Agencies	206,868
Noncurrent Liabilities:	
Due In More Than One Year	
Compensated Absences	672,238
Other Post Employment Benefits	290,807
Pension Benefits	<u>7,782,355</u>
Total Liabilities	<u>9,322,509</u>

DEFERRED INFLOWS OF RESOURCES

Pensions	2,140,995
Unearned Revenues	<u>863,106</u>
Total Liabilities and Deferred Inflows of Resources	<u>12,326,610</u>

NET POSITION

Invested in Capital Assets, Net of Related Debt	2,662,812
Restricted for Other Purposes	6,474,747
Unrestricted	<u>(6,568,494)</u>
Total Net Position	<u>\$ 2,569,065</u>

See accompanying notes to financial statements.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
PRIMARY GOVERNMENT				
Governmental Activities:				
Public Safety:				
Salaries and Benefits	\$ 6,166,740	\$ 4,281,704	\$ 1,397,700	\$ (487,336)
Services and Supplies	1,433,043	994,993	324,801	(113,249)
Contributions to Other Participants	<u>1,053,976</u>	<u>731,799</u>	<u>238,885</u>	<u>(83,292)</u>
Total Governmental Activities	<u>8,653,759</u>	<u>6,008,496</u>	<u>1,961,386</u>	<u>(683,877)</u>
Total Primary Government	<u>\$ 8,653,759</u>	<u>\$ 6,008,496</u>	<u>\$ 1,961,386</u>	<u>(683,877)</u>
General Revenues:				
Unrestricted Investment Earnings				26,431
Miscellaneous				<u>10,375</u>
Total General Revenues				<u>36,806</u>
Change in Net Position				(647,071)
Net Position - Beginning				<u>3,216,136</u>
Net Position - Ending				<u>\$ 2,569,065</u>

See accompanying notes to financial statements.

FUND FINANCIAL STATEMENTS

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016

	General Fund	Mobile Emissions Program	Carl Moyer Program	Total Governmental Funds
ASSETS				
Cash	\$ 86,594	\$ -	\$ -	\$ 86,594
Pooled Investments	1,988,112	3,060,610	596,647	5,645,369
Receivables (net of allowances for uncollectibles)	1,216,647	143,075	687,578	2,047,300
Receivable from Related Parties	111,177	-	-	111,177
Due from Other Funds	90,612	61,862	-	152,474
Prepaid Items	43,982	-	-	43,982
Long Term Receivables	820,801	-	-	820,801
Total Assets	<u>\$ 4,357,925</u>	<u>\$ 3,265,547</u>	<u>\$ 1,284,225</u>	<u>\$ 8,907,697</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts Payable and Other				
Current Liabilities	\$ 357,052	\$ -	\$ 13,189	\$ 370,241
Due to Other Funds	61,862	-	69,474	131,336
Due to Other Government Agencies	(175)	207,043	-	206,868
Total Liabilities	<u>418,739</u>	<u>207,043</u>	<u>82,663</u>	<u>708,445</u>
DEFERRED INFLOWS OF RESOURCES				
Unearned Revenues	<u>-</u>	<u>-</u>	863,106	863,106
Total Deferred Inflows	<u>-</u>	<u>-</u>	863,106	863,106
FUND BALANCES				
Non-spendable	43,982	-	-	43,982
Restricted	-	3,058,504	338,456	3,396,960
Committed	1,190,000	-	-	1,190,000
Assigned	1,843,805	-	-	1,843,805
Unreserved	861,399	-	-	861,399
Total Fund Balances	<u>3,939,186</u>	<u>3,058,504</u>	<u>338,456</u>	<u>7,336,146</u>
Total Liabilities and Fund Balances	<u>\$ 4,357,925</u>	<u>\$ 3,265,547</u>	<u>\$ 1,284,225</u>	<u>\$ 8,907,697</u>

See accompanying notes to financial statements.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

Total Fund Balances - Governmental Funds	\$	7,336,146
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Capital assets used for governmental activities are not financial resources and therefore are not reported as assets in Governmental Funds. The cost of the assets is \$6,553,612 and the accumulated depreciation is \$3,890,800.

2,662,812

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the noncurrent portion of capital leases, compensated absences and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. In general, liabilities that mature or come due for payment during the fiscal year are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a current liability in the fund financial statements when due but rather recognized as an expense when paid.

Long-term liabilities, including all bonds, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Current bond and debt and all long-term liabilities at year end consist of:

Deferred Inflows of Resources - Pension Benefits	(3,456,502)	
Deferred Outflows of Resources - Pension Benefits	2,140,995	
Pension Benefits	7,782,355	
Post Employment Benefits	290,807	
Compensated Absences	672,238	

Total		(7,429,893)
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Total Net Position - Governmental Activities	\$	2,569,065
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See accompanying notes to financial statements.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Mobile Emissions Program	Carl Moyer Program	Total Governmental Funds
REVENUES				
Antelope Valley Air Quality Management Contract	\$ 1,308,278	\$ -	\$ -	\$ 1,308,278
Application and Permit Fees	4,325,977	-	-	4,325,977
AB 2766 and Other Program Revenues	1,646,519	-	-	1,646,519
Grants	313,641	-	339,467	653,108
Fines	36,000	-	-	36,000
Investment Earnings	9,196	14,840	2,395	26,431
Miscellaneous	10,375	-	-	10,375
Total Revenues	<u>7,649,986</u>	<u>14,840</u>	<u>341,862</u>	<u>8,006,688</u>
EXPENDITURES				
Public Safety:				
Salaries and Benefits	5,634,599	-	-	5,634,599
Services and Supplies	1,038,970	-	80,741	1,119,711
Contributions to Other Participants	90,000	705,251	258,725	1,053,976
Capital Outlay				
Improvements and Equipment	140,299	-	-	140,299
Total Expenditures	<u>6,903,868</u>	<u>705,251</u>	<u>339,466</u>	<u>7,948,585</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>746,118</u>	<u>(690,411)</u>	<u>2,396</u>	<u>58,103</u>
Other Financing Sources (Uses)				
Operating Transfers In	-	776,200	-	776,200
Operating Transfers Out	<u>(776,200)</u>	<u>-</u>	<u>-</u>	<u>(776,200)</u>
Total Other Financing Sources (Uses)	<u>(776,200)</u>	<u>776,200</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(30,082)	85,789	2,396	58,103
Fund Balance - Beginning of Year	<u>3,969,268</u>	<u>2,972,715</u>	<u>336,060</u>	<u>7,278,043</u>
Fund Balance - End of Year	<u>\$ 3,939,186</u>	<u>\$ 3,058,504</u>	<u>\$ 338,456</u>	<u>\$ 7,336,146</u>

See accompanying notes to financial statements.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Total Net Change in Fund Balances - Governmental Funds	\$	58,103
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Fixed Assets Additions	\$	140,299	
Current Year Depreciation		<u>(313,330)</u>	
Total			(173,031)

Under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, contributions paid for the year ending June 30, 2016, are deferred until June 30, 2017. The pension expense recognized is the District's proportionate share of pension expense for the year ended June 30, 2015.

Pension Expense Recognized		<u>(190,940)</u>	
Total			(190,940)

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Current debt and all long-term liabilities at year end consist of:

Post Employment Benefits		(279,235)	
Compensated Absences		<u>(61,968)</u>	
Total			<u>(341,203)</u>

Total Change in Net Position - Governmental Activities	\$	<u><u>(647,071)</u></u>
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See accompanying notes to financial statements.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2016**

ASSETS

Cash in Trust	\$ 560,524
	<u>560,524</u>
Total Assets	<u>560,524</u>

LIABILITIES

Due to Other Funds	21,138
	<u>21,138</u>
Total Liabilities	<u>21,138</u>

NET POSITION

Held in Trust for Post Employment Benefits	539,386
	<u>539,386</u>
Total Net Position	<u>\$ 539,386</u>

See accompanying notes to financial statements.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2016**

ADDITIONS

Investment Gain	<u>\$ (2,974)</u>
Total Additions	<u>(2,974)</u>

DEDUCTIONS

Fees	<u>25,048</u>
Total Deductions	<u>25,048</u>
Net Change in Net Position	(28,022)
Net Position - Beginning of Year	<u>567,408</u>
Net Position - End of Year	<u><u>\$ 539,386</u></u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The basic financial statements of Mojave Desert Air Quality Management District (the District) include the accounts of all its operations. The District is a local agency with the primary responsibility for the development, implementation, monitoring, and enforcement of air pollution control strategies and motor vehicle use reduction measures. The District represents the citizens of the Mojave Desert district in influencing the decisions of other public and private agencies whose actions may have an adverse impact on air quality within the Mojave Desert district. The District began operations on July 1, 1993, by assuming the authority of the San Bernardino County Air Pollution Control District that ceased operations. The District is governed by an appointed Governing Board from areas within its boundaries.

The criteria for including organizations as component units within the District's reporting entity, as set forth by Government Accounting Standards, The Financial Reporting Entity, include whether:

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District
- the exclusion of the organization would result in misleading or incomplete financial statements

The District also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the District to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the District, its component units or its constituents; and 2) The District or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the District.

Based on these criteria, the District has no component units or potential component units.

B. Basis of Presentation

Government-Wide Financial Statements: The statement of net assets and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through fees, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all fees, are presented as general revenues.

Fund Financial Statements: Fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

The District reports the following major governmental funds:

General Fund is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Mobile Emissions Program was established by the District to account for the retention of funds allocated for the support of the District's mobile emissions grant program (AB 2766).

Carl Moyer Program was established by the District to account for revenues received pursuant to the Carl Moyer Memorial Air Quality Standards Attainment Program. Expenditures are restricted to providing incentive for participating entities to undertake reduced-emission heavy-duty engine projects.

The District reports the following fiduciary funds:

Post Employment Benefit Trust Fund is used to account for assets held by the District as Trustees. The District maintains one non-major expendable trust fund, Retiree Benefits Fund, which is used to provide contingency reserves for District payment of current and future retiree health and welfare benefits.

C. Basis of Accounting and Measurement Focus

Government-Wide Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include fees, grants, entitlements, and donations. On an accrual basis, revenue from fees is recognized in the fiscal year for which the fees are charged. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end, and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, and then unrestricted resources.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, Deferred Inflows of Resources, and Net Assets/Fund Balance

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

Investments are reported at fair value (generally based on quoted market prices) except for the position in the San Bernardino County Investment Pool. The District adopted an investment policy directing management to deposit funds in financial institutions. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

3. Inventories and Prepaid Items

The District records purchases of supplies as expenditures utilizing the purchase method of accounting for inventory.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expense when consumed rather than when purchased.

4. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

<u>Description</u>	<u>Estimated Useful Lives</u>
Buildings	20 - 50 years
Building and Improvements	20 years
Vehicles	5 years
Equipment	15 - 20 years
Computer Equipment	3 - 15 years

5. Receivable and Payable Balances

Accounts receivable are deemed by management to be fully collectible at June 30, 2016, and therefore no allowance for doubtful accounts has been established.

6. Compensated Absences

Vacation and sick leave are recognized as expenses in the period accrued by the employee (with certain limitations). The current and non-current portion of accumulated unpaid vacation and sick leave as of June 30, 2016, was \$672,238.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, Deferred Inflows of Resources, and Net Assets/Fund Balance (Continued)

7. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures of expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as reimbursements. All other interfund transactions are treated as transfers. Transfer in and transfers out are netted and presented as a single "transfers" line on the government-wide statement of activities.

8. Deferred Inflows of Resources

Certain payments received for the Carl Moyer Fund reflect revenue applicable to future accounting periods and are recorded as deferred inflows of resources.

9. Fund Balance Reserves and Designations

Restricted Fund Balance The portion of fund balance representing resources subject to externally imposed and legally enforceable constraints imposed either by external resource providers, e.g., grantors or creditors, or by law through constitutional provisions or enabling legislation.

Mobile Emissions Reduction Grant (AB2766) These funds were established as a separate trust fund pursuant to Governing Board action May 26, 1996. Funds are allocated on a competitive basis to local government entities and other organizations capable of effectively using funds to reduce mobile emissions. A Work Plan adopted by the Governing Board provides the grant program guidelines.

Carl Moyer Grant Program Funds These funds may be distributed by the California Air Resources Board for projects obligated by the District under this state regulated program. Projects are awarded on a competitive basis.

Other Post Employment Benefits (OPEB) Trust This fund was established to meet requirements for reporting post retirement benefit costs, obligations, and plan for the future funding of the benefits in accordance with Government Accounting Standards Board (GASB) No. 45. The Governing Board authorized establishment of this irrevocable Trust with the Public Agency Retirement System (PARS) on November 23, 2009 to ensure the sustainability of the District's health benefits. Periodic actuarial reports determine liability and the annual budget establishes the deposit amount. An adopted investment policy guides the investment strategy to target a rate of return of approximately seven percent.

Committed Fund Balance The portion of fund balance representing resources whose use is constrained by limitations self-imposed by the District through formal action of its highest level of decision-making authority. The constraints can be modified or removed only through the same process by which they were imposed. The action imposing the constraint must be made by the end of the reporting period. The actual amounts may be determined at a later date, prior to the issuance of the financial statements.

Operating Cash Reserves The reserves must represent ten percent of the operating expenses from the combined budget totals for Salaries and Benefits, Supplies and Services, and Operating Transfers Out. The amount designated meets District policy requirements.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, Deferred Inflows of Resources, and Net Assets/Fund Balance (Continued)

9. Fund Balance Reserves and Designations (Continued)

Assigned Fund Balance The portion of fund balance representing resources that are intended to be used for specific purposes but for which the constraints do not meet the criteria to be reported as restricted or committed. Intent may be established either by the District's highest level of decision-making or by a designated body or official. Constraints giving rise to assigned fund balance may be imposed at any time before the financial statements are issued, and may be modified or removed by a process less formal than is required for committed fund balance. In governmental fund types other than the general fund, this is the residual fund balance classification.

Building Improvement Reserves These reserves are established for the District's administration facilities located at Park Avenue, Victorville in association with financing conditions. The fund's purpose is to provide replacement funds for capital improvements not budgeted and associated with the Park Avenue facility.

Legal and Litigation Reserves These reserves were established in fiscal year 2012 in anticipation of costs associated with ongoing CEQA challenges to rule adoption activities.

Non-spendable Fund Balance The portion of fund balance reflecting assets not in spendable form, either because they will never convert to cash (such as prepaid items) or must remain intact pursuant to legal or contractual requirements (such as the principal of a permanent endowment).

Non-spendable Prepaid Items The portion of fund balance reflecting the value of prepaid items.

Unassigned Fund Balance The portion of fund balance not classified as restricted, committed, or assigned.

In all governmental funds including the general fund, the excess of non-spendable, restricted, and committed fund balance over total fund balance (deficits), assigned amounts must be reduced or estimated if a deficit exists.

E. Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. Prior to the beginning of the fiscal year, the District prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain comments from those subject to District fees.
3. Prior to the start of the fiscal year, the budget is legally enacted through passage of a resolution by the Governing Board.

Once a budget is approved, it can be amended only by approval of a majority of the members of the Governing Board. As required by law, such amendments are made before the fact, reflected in the official minutes of the Governing Board and not made after fiscal year end. During the year, the budget was amended as necessary. Budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts are as originally adopted; individual amendments were not material in relation to the original budget.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures or expenses, as appropriate, during the reporting period. Actual results could differ from those estimates.

G. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense related to pensions, information about the fiduciary net position of the of the San Bernardino County Employees' Retirement Association (SBCERA) and additions to/deductions from SBCERA's fiduciary net position have been determined on the same basis as they are reported by SBCERA. For this purpose, employer and employee contributions are recognized in the period the related salaries are earned and become measurable pursuant to formal commitments, statutory or contractual requirements, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, and investments are reported at fair value.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments consisted of the following at June 30, 2016:

	Unrestricted	Restricted		
	General	Mobile	Carl	
	Fund	Emissions	Moyer	Total
Cash on Hands and in Banks	\$ 86,594	\$ -	\$ -	\$ 86,594
Pooled Investments - San Bernardino County Treasury	1,988,112	3,060,610	596,647	5,645,369
Total	<u>\$ 2,074,706</u>	<u>\$ 3,060,610</u>	<u>\$ 596,647</u>	<u>\$ 5,731,963</u>

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools such as the San Bernardino County Investment Pools.

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 – CASH AND INVESTMENTS (Continued)

Custodial Credit Risk (Continued)

pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Of the bank balances, up to \$250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

Investment in San Bernardino County Investment Pool

The District is a voluntary participant in the San Bernardino County Investment Pool that is regulated by the California Government Code under the oversight of the Treasurer of the County of San Bernardino. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by San Bernardino County for the entire San Bernardino County portfolio (in relation to the amortized cost of that portfolio). There are no limitations or restrictions on withdrawals and the fund's authority does not impose liquidity fees or redemption gates.

Investments Authorized by the California Government Code and the District's Investment Policy

The following table identifies the investment types that are authorized by the District in accordance with the California Government Code or the District's investment policy, where more restrictive. The table also identifies certain provisions of the California Government Code or the District's investment policy, where more restrictive that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 – CASH AND INVESTMENTS (Continued)

Investments Authorized by the California Government Code & the District's Investment Policy (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Minimum Quality Requirements
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations - CA And Others	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S Agency Obligations	5 years	None	None
Bankers' Acceptances	180 days	40%	None
Commercial Paper — Pooled Funds	270 days	40% of the agency's money	Highest letter and member rating by a NRSRO
Commercial Paper— Non-Pooled Funds	270 days	25% of the agency's money	Highest letter and member rating by a NRSRO
Negotiable Certificates of Deposit	5 years	30%	None
Non-negotiable Certificates of Deposit	5 years	None	None
Placement Service Deposits	5 years	30% (inclusive of placement service CDs)	None
Placement Service Certificates of Deposit	5 years	30% (combine with placement service deposits)	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements and Securities Lending Agreements	92 days	20% of the base value of the portfolio	None
Medium-Term Notes	5 years	30%	"A" Rating
Mutual Funds And Money Market Mutual Funds	N/A	20%	Multiple
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	"AA" Rating
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	Multiple
Local Agency Investment Fund (LAIF)	N/A	None	None
Voluntary Investment Program Fund	N/A	None	None
Supranational Obligations	5 years	30%	"AA" Rating

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 – CASH AND INVESTMENTS (Continued)

Interest Rate Risk (Continued)

portfolio matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments to market rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date.

Investments at June 30, 2016, consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Fair Value Adjustment*</u>	<u>Carrying Amount</u>	<u>Remaining Maturity (in</u>	
				<u>12 months or less</u>	<u>Over 12 months</u>
San Bernardino County Investment Pool -Unrestricted	\$ 1,993,050	\$ (4,938)	\$ 1,988,112	\$ 1,003,997	\$ 984,115
San Bernardino County Investment Pool - Restricted - Mobile Emissions	3,068,212	(7,602)	3,060,610	1,545,608	1,515,002
San Bernardino County Investment Pool - Restricted - Carl Moyer	598,129	(1,482)	596,647	301,307	295,340
Total	<u>\$ 5,659,391</u>	<u>\$ (14,022)</u>	<u>\$ 5,645,369</u>	<u>\$ 2,850,912</u>	<u>\$ 2,794,457</u>

* Due to the immaterial nature of the Fair Value Adjustment, the San Bernadino County Investment Pool balances are reflected at their carrying amount in the financial statements.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by, where applicable, the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year-end for each investment type

Credit ratings as of June 30, 2016, consisted of the following:

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt from Disclosure</u>	<u>Ratings AAA</u>
San Bernardino County Investment Pool -Unrestricted	\$ 1,988,112	N/A	\$ 1,988,112	-
San Bernardino County Investment Pool - Restricted - Mobile Emissions	3,060,610	N/A	3,060,610	-
San Bernardino County Investment Pool - Restricted - Carl Moyer	596,647	N/A	596,647	-
Total	<u>\$ 5,645,369</u>		<u>\$ 5,645,369</u>	

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 2016, expenditures exceeded the revised budget estimates in individual funds as follows:

	<u>Excess Expenditures</u>
General Fund	
Public Safety:	
Services and Supplies	\$ 148,345
Operating Transfers Out	\$ 444,282
Mobile Emissions Program	
Public Safety:	
Services and Supplies	\$ 210,251
Carl Moyer Program	
Public Safety:	
Services and Supplies	\$ 20,741

NOTE 4 - ACCOUNTS RECEIVABLE

Receivables at June 30, 2016, consist of the following:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Totals</u>
<u>Due Within One Year</u>			
State Government:			
Carl Moyer	\$ -	\$ 687,578	\$ 687,578
Other	-	143,075	143,075
Total State	-	830,653	830,653
Local Government:			
Local Sources	1,327,824	-	1,327,824
Total Local	1,327,824	-	1,327,824
Total Due Within One Year	1,327,824	830,653	2,158,477
<u>Due in More Than One Year</u>			
Local Sources	820,801	-	820,801
Total Due in More Than One Year	820,801	-	820,801
Total Accounts Receivable	<u>\$ 2,148,625</u>	<u>\$ 830,653</u>	<u>\$ 2,979,278</u>

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5 – CAPITAL ASSETS

The changes in fixed assets for the year ended June 30, 2016, are shown below:

	Balance July 01, 2015	Additions	Deletions	Balance June 30, 2016
Non-depreciable Capital Assets				
Land	\$ 278,568	\$ -	\$ -	\$ 278,568
Total Non-depreciable Capital Assets	278,568	-	-	278,568
Depreciable Capital Assets				
Buildings and Improvements	2,701,363	-	-	2,701,363
Equipment	3,260,053	140,299	-	3,400,352
Vehicles	173,329	-	-	173,329
Total Depreciable Capital Assets	6,134,745	140,299	-	6,275,044
Less accumulated depreciation for:				
Buildings and Improvements	(1,370,684)	(125,856)	-	(1,496,540)
Equipment	(2,061,109)	(178,406)	-	(2,239,515)
Vehicles	(145,677)	(9,068)	-	(154,745)
Total Accumulated Depreciation	(3,577,470)	(313,330)	-	(3,890,800)
Net Depreciable Capital Assets	2,557,275	(173,031)	-	2,384,244
Total Capital Assets, Net	\$ 2,835,843	\$ (173,031)	\$ -	\$ 2,662,812

Depreciation was charged to functions as follows:

Public Safety - Other	\$ 313,330
Total Depreciation Expenses	\$ 313,330

NOTE 6 – INTERFUND TRANSACTIONS

Due From / Due To Other Funds – All interfund balances are expected to be repaid within the next fiscal year and are considered ordinary in nature. The composition of interfund balances as of June 30, 2016, is as follows:

	Interfund Receivables	Interfund Payables
Carl Moyer Program	\$ -	\$ 69,474
Mobile Emissions Program	61,862	-
Fiduciary Fund	-	21,138
General Fund	90,612	61,862
Totals	\$ 152,474	\$ 152,474

Transfers In / Transfers Out – Individual fund interfund transfers for the fiscal year ended June 30, 2016, were as follows:

Transfers In	Transfers Out	Amount	Purpose
Mobile Emissions Program	General Fund	\$ 776,200	To transfer mobile emissions revenue to the Mobile Emissions Fund.
	Total	\$ 776,200	

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7 – RELATED PARTY TRANSACTIONS

The District charges Antelope Valley Air Quality Management District (AVAQMD) for the cost of providing administrative support. Amounts charged to AVAQMD are recorded as earned revenue during the period incurred. Amounts charged to AVAQMD and recorded as revenue during the year ended June 30, 2016, were \$1,277,278 and receivable from to AVAQMD as of June 30, 2016, was \$423,284.

NOTE 8 – LONG-TERM DEBT OBLIGATIONS

A summary of changes in general long-term debt at June 30, 2016, follows:

	Balance July 01, 2015	Additions	Deductions	Balance June 30, 2016	Due Within One Year
Retiree Health Benefits	\$ 10,878	\$ -	\$ (10,878)	\$ -	\$ -
Other Post Employment Benefits	694	310,068	(19,955)	290,807	-
Pension Benefits	7,124,444	657,911	-	7,782,355	-
Compensated Absences	610,270	61,968	-	672,238	-
Total	<u>\$ 7,746,286</u>	<u>\$ 1,029,947</u>	<u>\$ (30,833)</u>	<u>\$ 8,745,400</u>	<u>\$ -</u>

NOTE 9 – LEASE OBLIGATIONS

The District has entered into operating leases for facilities and equipment as of June 30, 2016, that require payments extending for a period longer than twelve months. Rent expenses for the year ending June 30, 2016 was \$69,700. Future payments as of June 30, 2016, are as follows:

Year Ending June 30,	Amount
2017	\$ 57,899
2018	45,084
2019	17,087
2020	14,045
2021	5,852
Total	<u>\$ 139,967</u>

NOTE 10 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year ended June 30, 2016, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for any of the past three fiscal years.

The District is a participant in the Special District Risk Management Authority (SDRMA) formed for the purpose of providing insurance to its member agencies.

At June 30, 2016, SDRMA maintained general liability, automobile liability, workers' compensation and public officials' liability insurance coverage of \$5,000,000 per occurrence with \$500,000 self-insurance retention covered by a purchased policy. Inasmuch as SDRMA is acting as a broker obtaining low cost policies for its members, joint venture disclosure is not applicable.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 10 – RISK MANAGEMENT (Continued)

At June 30, 2016, SDRMA also maintained property liability insurance coverage of \$1,000,000 per claim and claims above the self-insurance limits as required by law. As SDRMA is acting as a broker obtaining low cost policies for its members, joint venture disclosure is not applicable.

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS

A. Defined Benefit Pension Plans

San Bernardino County Employees' Retirement Association

Plan description.

The Mojave Desert Air Quality Management District participates in the San Bernardino County Employees' Retirement Association (SBCERA) pension plan – a cost-sharing multiple-employer defined benefit pension plan (the Plan). SBCERA administers the Plan which provides benefits for two membership classifications, General and Safety, and those benefits are tiered based upon date of SBCERA membership. Safety membership is extended to those involved in active law enforcement and fire suppression. All other members are classified as General members. Generally, those who become members prior to January 1, 2013 are Tier 1 members. All other members are Tier 2. An employee who is appointed to a regular position, whose service is greater than fifty percent of the full standard of hours required are members of SBCERA, and are provided with pension benefits pursuant to Plan requirements.

The Plan operates under the provisions of the California County Employees' Retirement Law of 1937 (CERL), the California Public Employees' Pension Reform Act of 2013 (PEPRA), and the regulations, procedures and policies adopted by SBCERA's Board of Retirement (Board). The Plan's authority to establish and amend the benefit terms are set by the CERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the County of San Bernardino Board of Supervisors and/or the SBCERA Board. SBCERA is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

SBCERA is a legally separate entity from Mojave Desert Air Quality Management District, not a component unit, and there is no financial interdependency with the County of San Bernardino. For these reasons, the Mojave Desert Air Quality Management District's comprehensive annual financial report excludes the SBCERA pension plan as of June 30, 2016. SBCERA publishes its own comprehensive annual financial report that includes its financial statements and required supplementary information, that can be obtained by writing SBCERA at, 348 W. Hospitality Lane, Third Floor, San Bernardino, CA 92415-0014 or visiting the website at: www.SBCERA.org.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (Continued)

A. Defined Benefit Pension Plans (Continued)

Benefits Provided

SBCERA provides retirement, disability, death and survivor benefits. The CERL and PEPRA establish benefit terms. Retirement benefits are calculated on the basis of age, average final compensation and service credit as follows:

	General –Tier 1	General – Tier 2	Safety – Tier 1	Safety – Tier 2
Final Average Compensation	Highest 12 months	Highest 36 months	Highest 12 months	Highest 36 months
Normal Retirement Age	Age 55	Age 55	Age 50	Age 50
Early Retirement: Years of service required and/or eligible for	Age 70 any years 10 years age 50 30 years any age	Age 70 an years 5 years age 52 N/A	Age 70 any years 10 years age 50 20 years any age	Age 70 any years 5 years age 50 N/A
Benefit percent per year of service for normal retirement age	2% per year of final average compensation for every year of service credit	2.5% per year of final average compensation for every year of service credit	3% per year of final average compensation for every year of service credit	2.7% per year of final average compensation for every year of service credit
Benefit Adjustments	Reduced before age 55, increased after 55 up to age 65	Reduced before age 67	Reduced before age 50	Reduced before age 57
Final Average Compensation Limitation	Internal Revenue Code Section 401(a)(17)	Government Code section 7522.10	Internal Revenue Code Section 401(a)(17)	Government Code section 7522.10

An automatic cost of living adjustment is provided to benefit recipients based on changes in the local region Consumer Price Index (CPI) up to a maximum of 2% per year. Any increase greater than 2% is banked and may be used in years where the CPI is less than 2%. There is a one-time 7% increase at retirement for member hired before August 19, 1975. The plan also provides disability and death benefits to eligible members and their beneficiaries, respectively. For retired members, the death benefits is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to benefits based on the members years of service or if the death was caused by employment. General members are also eligible for survivor benefits which are payable upon a member's death.

Contributions

Participating employers and active members are required by statute to contribute a percentage of covered salary to the Plan. This requirement is pursuant to Government Code section 31453.5 and 31454, for participating employers and Government Code sections 31621.6, 31639.25 and 7522.30 for active members. The contribution requirements are established and may be amended by the SBCERA Board pursuant to Article 1 of CERL, which is consistent with the Plan's actuarial funding policy. The contribution rates are adopted yearly, based on an annual actuarial valuation,

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (Continued)

A. Defined Benefit Pension Plans (Continued)

Contributions (Continued)

conducted by an independent actuary, that requires actuarial assumptions with regard to mortality, expected future service (including age at entry into the Plan, if applicable and tier), and compensation increases of the members and beneficiaries. The combined active member and employer contribution rates are expected to finance the costs of benefits for employees that are allocated during the year, with an additional amount to finance any unfunded accrued liability. Participating employers may pay a portion of the active members' contributions through negotiations and bargaining agreements.

Employee contribution rates for the fiscal year ended June 30, 2016 ranged between 7.89% and 14.22% for Tier 1 General members and between 7.66% and 8.37% for Tier 2 General members. For the fiscal year ended June 30, 2015 employee contribution rates ranged between 7.07% and 13.52% for Tier 1 General members and between 6.37% and 7.99% for Tier 2 General members.

Employer contribution rates for the year ended June 30, 2016 are as follows:

	<u>Employer Contribution Rates</u>	
	<u>Tier 1 Members</u>	<u>Tier 2 Members</u>
	<u>Total</u>	<u>Total</u>
Actuarially Determined Required Contribution Percentages		
Other General Members	26.59%	23.26%

The required employer contributions and the amount paid to SBCERA by the Mojave Desert Air Quality Management District for the year ended June 30, 2016 were \$1,312,568. The Mojave Desert Air Quality Management District's employer contributions were equal to the required employer contributions for the year ended June 30, 2016.

Pension Liability

At June 30, 2016 Mojave Desert Air Quality Management District reported a net pension liability of \$7,782,355 for its proportionate share of the SBCERA's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The Mojave Desert Air Quality Management District's report liability at June 30, 2016 increased by \$657,911 from the Mojave Desert Air Quality Management District's prior year liability of \$7,124,444 because of changes in the SBCERA net pension liability and the Mojave Desert Air Quality Management District's proportionate share of that liability. The SBCERA's publicly available financial report provides details on the change in the net pension liability.

The Mojave Desert Air Quality Management District's proportion of the net pension liability was based on the Mojave Desert Air Quality Management District's contributions received by SBCERA during the measurement period for employer payroll paid dates from July 1, 2014 through June 30, 2015, relative to the total employer contributions received from all of SBCERA's participating employers. At June 30, 2015, the Mojave Desert Air Quality Management District's proportion was .401%, which was a decrease of .018% from its proportion measured as of June 30, 2014.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (Continued)

A. Defined Benefit Pension Plans (Continued)

Pension Expense and Deferred Outflows/Inflows of Resources.

For the year ended June 30, 2015, the Mojave Desert Air Quality Management District recognized pension expense of \$1,030,499 for its proportionate share of SBCERA's pension expense. At June 30, 2016, the Mojave Desert Air Quality Management District reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to pensions, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,293,169
Changes in actuarial assumptions	894,119	-
Net difference between projected and actual earnings on pension plan investments	-	456,210
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,249,815	391,616
Employer contributions paid to SBCERA subsequent to the measurement date	1,312,568	-
Total	\$ 3,456,502	\$ 2,140,995

The \$1,312,568 reported as deferred outflows of resources related to pensions resulting from Mojave Desert Air Quality Management District contributions to SBCERA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to SBCERA pensions will be recognized in pension expense as follows:

Year ended June 30	
2017	(180,110)
2018	(180,110)
2019	166,900
2020	327,366
2021	(88,848)
2022	(42,259)
There After	-

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (Continued)

A. Defined Benefit Pension Plans (Continued)

Actuarial assumptions and methods.

The significant actuarial assumptions and methods used to measure the total pension liability are as follows:

Actuarial valuation date:	June 30, 2015
Actuarial cost method:	Entry age normal
Amortization method:	Level percent of payroll (3.75% payroll growth assumed)
Investment rate of return:	7.50%
Inflation:	3.25%
Projected Salary increases General:	4.60% to 13.75%; Safety 4.55% to 13.75%
Administrative Expenses:	0.60% of payroll

For General and Safety employees post-retirement mortality is based on the RP-2000 Combined Healthy Mortality Tables projected with Scale BB to 2020. For Safety employees, the table is set back two years for males and set back one year for females.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the three year period of July 1, 2010 – June 30, 2013.

The long-term expected rate of return on pension plan investments is 7.50%. SBCERA's actuary prepares an analysis of the long-term expected rate of return on a triennial basis using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, by adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocations (approved by the SBCERA Board) and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumptions are summarized in the following table:

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (Continued)

A. Defined Benefit Pension Plans (Continued)

SBCERA's Long-Term Expected Real Rate of Return

Asset Class	As of June 30, 2015 Valuation Date		As of June 30, 2014 Valuation Date	
	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
U.S. Equity	N/A ¹	N/A ¹	N/A ¹	N/A ¹
Large Cap U.S. Equity	5.00%	5.94%	5.00%	5.94%
Small Cap U.S. Equity	2.00%	6.50%	2.00%	6.50%
Developed International Eq.	6.00%	6.87%	6.00%	6.87%
Emerging Market Equity	6.00%	8.06%	6.00%	8.06%
U.S. Core Fixed Income	2.00%	0.69%	2.00%	0.69%
High Yield/Credit Strategies	13.00%	3.10%	13.00%	3.10%
Global Core Fixed Income	1.00%	0.30%	1.00%	0.30%
Emerging Market Debt	6.00%	4.16%	6.00%	4.16%
Real Estate	9.00%	4.96%	9.00%	4.96%
Cash & Equivalents	2.00%	-0.03%	2.00%	-0.03%
International Credit	10.00%	6.76%	10.00%	6.76%
Absolute Return	13.00%	2.88%	13.00%	2.88%
Real Assets	6.00%	6.85%	6.00%	6.85%
Long/Short Equity	3.00%	4.86%	3.00%	4.86%
Private Equity	16.00%	9.64%	16.00%	9.64%
Total	100.00%		100.00%	

(1) N/A = Asset Class not considered in the calculation

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made based on the actuarially determined rates based on the SBCERA Board's funding policy, which establishes the contractually required rate based on statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (Continued)

A. Defined Benefit Pension Plans (Continued)

Sensitivity of the Mojave Desert Air Quality Management District's proportionate share of the SBCERA net pension liability to changes in the discount rate.

The following table presents the Mojave Desert Air Quality Management District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the Mojave Desert Air Quality Management District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

Sensitivity of Net Pension Liability to Changes in the Discount Rate

As of June 30, 2016 and 2015

<u>June 30, 2016</u>	<u>1.00% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1.00% Increase (8.50%)</u>
Mojave Desert Air Quality Management District proportionate share of the net pension liability	\$11,450,536	\$7,782,355	\$4,746,614

<u>June 30, 2015</u>	<u>1.00% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1.00% Increase (8.50%)</u>
Mojave Desert Air Quality Management District proportionate share of the net pension liability	\$12,590,545	\$7,124,444	\$2,597,590

Pension plan fiduciary net position.

Detailed information about the SBCERA's fiduciary net position is available in a separately issued SBCERA comprehensive annual financial report. That report may be obtained on the Internet at www.SBCERA.org; by writing to SBCERA at 348 W. Hospitality Lane, Third Floor, San Bernardino, CA 92415; or by calling (909) 885-7980 or (877) 722-3721.

B. Deferred Compensation Plan

District employees may participate in the "Mojave Desert Air Quality Management District Deferred Compensation Plan" established pursuant to Internal Revenue Code Section 457. The plan is administered by ING Aetna Financial Services, Inc. and all contributions are made entirely from employee compensation. No District contribution is required or made.

C. Matching Contribution Plan

District employees participating in the Deferred Compensation Plan become participants in the "Mojave Desert Air Quality Management District 401(a) Matching Contribution Plan" established pursuant to Internal Revenue Code Section 3401(a). The District (Employer) shall make matching contributions for each participant equal to a specified percentage of his or her salary deferrals made during the plan year under the Deferred Compensation

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (Continued)

C. Matching Contribution Plan (Continued)

Plan. For the fiscal year ended June 30, 2016, the Employer matched 100 percent up to 6 percent of the participant's deferral. Employee voluntary contributions are not permitted under the plan. Vesting in the District's matching contribution is based on years of continuous service as follows:

<u>Completed Years of Service</u>	<u>Nonforfeitable Percentage</u>
0-4	0%
5	100%

A participant shall be entitled to benefits under this plan upon termination of service due to death, disability or retirement.

D. Flexible Benefit Plan

District employees participate in the "Mojave Desert Air Quality Management District Flexible Benefit Plan" established pursuant to Internal Revenue Code Section 125. The plan allows for District employees to elect between taxable and nontaxable fringe benefits and compensation. The District makes payment to employees pursuant to negotiated bargaining agreement.

NOTE 12 – POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

A. Benefit Plan

In addition to the pension benefits described in Note 11, the District provides post employment benefits for health care. This coverage is self-insured on a pooled basis through the California Public Employees' Retirement System (CalPers).

Eligibility for District-paid Benefits

All District pays to eligible retired employees two percent (2%) per service year of the premium of CalPers health insurance for the employee and his or her spouse, but not to exceed the Flexible Benefit amount for a full time employee. Such benefit is payable from the date of retirement to (5) years, or until the date retiree becomes eligible for Medicare, or until the date retiree discontinues the coverage, whichever occurs first.

Retiring employee shall be eligible for retiree medical benefits under the following conditions:

- A. Retiring employee must be enrolled in a CalPers health plan at the time of the retirement.
- B. Retiring employee must have served a minimum of ten (10) years of public service with the District.
- C. Retiring employee must have a minimum total of twenty (20) years of public service with any of the member agencies of the District and any air district in California. For the purpose of this subsection, a "member agency" is defined as a city or county that lies in whole or in part within the boundaries of the District.

B. Funding Policy

As required by GASB 45, an actuary will determine the District's Annual Required Contributions (ARC) at least once every two fiscal years. The ARC is calculated in accordance with certain parameters, and includes

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 – POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

B. Funding Policy (Continued)

(1) the Normal Cost for one year, and (2) a component for amortization of the total unfunded actuarial accrued liability (UAAL) over a period not to exceed 30 years.

GASB 45 does not require pre-funding of OPEB benefits. Therefore, the District's funding policy is to continue to pay healthcare premiums for retirees as they fall due. The District has elected to establish an irrevocable trust at this time. The Board Members reserve the authority to review and amend this funding policy from time to time, in order to ensure that the funding policy continues to best suit the circumstances of the District.

C. Annual OPEB Cost and Net OPEB Obligation/(Asset)

The following table shows the components of the District's Annual OPEB cost for the fiscal year ended June 30, 2016, the amount actually contributed to the plan, and changes in the District's Net OPEB Obligation/(Asset).

Actuarial Increase in Net OPEB Obligation	\$ 252,419
Annual Required Contributions	57,656
Adjustment to ARC	(7)
Contributions made	<u>(19,955)</u>
Increase in Net OPEB Obligation/(Asset)	290,113
Net OPEB Obligation/(Asset) - beginning of year	694
Net OPEB Obligation/(Asset) - end of year	<u><u>\$ 290,807</u></u>

The District's Annual OPEB Cost, the percentage of Annual OPEB cost contributed to the plan, and the Net OPEB Obligation/(Asset) for the fiscal year ended June 30, 2016 are shown in the following table.

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation/ (Asset)</u>
06/30/2012	\$ 190,200	\$ 100,000	52.58%	\$ (49,480)
06/30/2013	\$ 34,245	\$ 200,000	584.03%	\$ (3,505)
06/30/2014	\$ 34,245	\$ -	0.00%	\$ (47,531)
06/30/2015	\$ 34,245	\$ -	0.00%	\$ 694
06/30/2016	\$ 57,656	\$ 19,955	34.61%	\$ 290,807

D. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The plan's most recent actuarial valuation was performed as of July 1, 2015. In that valuation, the Projected Unit Credit (PUC) Cost Method was used. The actuarial assumptions included a 7 percent discount rate and a 7

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

percent return on assets. The District's unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis over 30 years. The remaining amortization period as of June 30, 2016, was 30 years.

NOTE 13 – UNEARNED REVENUE

- A. The State of California Air Resources Board established the Carl Moyer Memorial Air Quality Standards Attainment Program to provide incentives for participating entities to undertake reduced-emission heavy-duty engine projects. The District applied for the Program and received funding under this program as follows:

	Round of Funding				Total
	XV	XVI	XVII	XVIII	
<u>Grant Funding</u>					
Amount Received to Date	\$ 572,647	\$ 594,480	\$ 150,000	\$ 618,820	\$ 1,935,947
Amount Expended to Date	(572,647)	(594,480)	(20,693)	-	(1,187,820)
Total Grant Deferred	-	-	129,307	618,820	748,127
<u>Administrative Support Funding</u>					
Amount Received to Date	63,627	66,053	68,758	68,758	267,196
Amount Expended to Date	(63,627)	(66,053)	(22,537)	-	(152,217)
Total Administrative Deferred	-	-	46,221	68,758	114,979
Total Amount Deferred	\$ -	\$ -	\$ 175,528	\$ 687,578	\$ 863,106

As of June 30, 2016, the District had identified and committed funds per grant requirements, but had not yet expended all of the program revenues. Since the District would be required to repay program revenue not used, the criteria for recognizing this program revenue as income is not met until District expenditures are actually made. The Carl Moyer Program income will be reflected as deferred revenue until the expenditures are made in subsequent periods.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

A. Contingencies

The District participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

B. Litigation

The District was involved in several matters of litigation as of June 30, 2016. There is a large potential for future lawsuits from environmentalists and other organizations that are in disagreement with manufacturing and other types of business activities that may have emissions as a result of their production activities and it appears to be no insurance available to help off-set these potential claims. The outcomes of these matters of litigation are uncertain as of June 30, 2016.

C. State and Federal Allowances, Awards and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

REQUIRED SUPPLEMENTARY INFORMATION

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Antelope Valley Air Quality Management Contract	\$ 1,221,000	\$ 1,314,715	\$ 1,308,278	\$ (6,437)
Application and Permit Fees	4,636,700	4,329,850	4,325,977	(3,873)
AB 2766 and Other Program Revenues	866,000	877,000	1,646,519	769,519
Grants	331,500	311,615	313,641	2,026
Fines	60,000	60,000	36,000	(24,000)
Investment Earnings	7,500	7,500	9,196	1,696
Miscellaneous	-	-	10,375	10,375
Total Revenues	7,122,700	6,900,680	7,649,986	749,306
EXPENDITURES				
Public Safety:				
Salaries and Benefits	5,610,209	5,934,973	5,634,599	(300,374)
Services and Supplies	1,103,070	890,625	1,038,970	148,345
Contributions to Other Participants	127,000	127,000	90,000	(37,000)
Capital Outlay:				
Improvements and Equipment	495,000	280,000	140,299	(139,701)
Total Expenditures	7,335,279	7,232,598	6,903,868	(328,730)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(212,579)	(331,918)	746,118	1,078,036
OTHER FINANCING SOURCES (USES)				
Operating Transfers Out	(331,918)	(331,918)	(776,200)	444,282
Total Other Financing Sources (Uses)	(331,918)	(331,918)	(776,200)	444,282
Net Change in Fund Balances	(544,497)	(663,836)	(30,082)	633,754
Fund Balance - Beginning of Year	3,969,268	3,969,268	3,969,268	-
Fund Balance - End of Year	\$ 3,424,771	\$ 3,305,432	\$ 3,939,186	\$ 633,754

See independent auditors' report.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
BUDGETARY COMPARISON SCHEDULE - MOBILE EMISSIONS PROGRAM
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Investment Earnings	\$ 39,150	\$ 39,150	\$ 14,840	\$ (24,310)
Total Revenues	39,150	39,150	14,840	(24,310)
EXPENDITURES				
Public Safety Services and Supplies	495,000	495,000	705,251	210,251
Total Expenditures	495,000	495,000	705,251	210,251
Excess (Deficiency) of Revenues Over (Under) Expenditures	(455,850)	(455,850)	(690,411)	(234,561)
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	699,350	699,350	776,200	76,850
Total Other Financing Sources (Uses)	699,350	699,350	776,200	76,850
Net Change in Fund Balances	243,500	243,500	85,789	(157,711)
Fund Balance - Beginning of Year	2,972,715	2,972,715	2,972,715	-
Fund Balance - End of Year	<u>\$ 3,216,215</u>	<u>\$ 3,216,215</u>	<u>\$ 3,058,504</u>	<u>\$ (157,711)</u>

See independent auditors' report.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
BUDGETARY COMPARISON SCHEDULE - CARL MOYER PROGRAM
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Grants	\$ 636,629	\$ 636,629	\$ 339,467	\$ (297,162)
Investment Earnings	(28,631)	(28,631)	2,395	31,026
Total Revenues	607,999	607,999	341,862	(266,137)
EXPENDITURES				
Public Safety:				
Services and Supplies	60,000	60,000	80,741	20,741
Contributions to Other Participants	607,999	607,999	258,725	(349,274)
Total Expenditures	667,999	667,999	339,466	(328,533)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(60,000)	(60,000)	2,396	62,396
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	(60,000)	(60,000)	2,396	62,396
Fund Balance - Beginning of Year	336,060	336,060	336,060	-
Fund Balance - End of Year	<u>\$ 276,060</u>	<u>\$ 276,060</u>	<u>\$ 338,456</u>	<u>\$ 62,396</u>

See independent auditors' report.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
SBCERA PENSION PLAN
LAST 10 FISCAL YEARS ⁽¹⁾

	June 30, 2016	June 30, 2015	June 30, 2014
District's proportion of the net pension liability	0.401%	0.419%	0.382%
District's proportionate share of the net pension liability	\$ 7,782,355	\$ 7,124,444	\$ 7,580,519
District's covered-employee payroll	\$ 3,918,233	\$ 3,852,547	\$ 3,454,500
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	198.62%	184.93%	219.44%
SBCERA's fiduciary net position as a percentage of the total pension liability	71.70%	71.93%	68.36%

(1) The amounts presented for each fiscal year were determined as of June 30. Data for fiscal years ended June 30, 2007 through 2013 is not available in a comparable format.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
SCHEDULE OF CONTRIBUTIONS
SBCERA PENSION PLAN
LAST 10 FISCAL YEARS ⁽¹⁾

	June 30, 2016	June 30, 2015	June 30, 2014
Contractually required contributions	\$ 1,030,499	\$ 898,449	\$ 1,086,330
Contributions in relation to the contractually required contributions	(1,030,499)	(898,449)	(1,086,330)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 3,918,233	\$ 3,852,547	\$ 3,454,500
Contributions as a percentage of covered-employee payroll	26.30%	23.32%	31.45%

(1) The amounts presented for each fiscal year were determined as of June 30. Data for fiscal years ended June 30, 2007 through 2013 is not available in a comparable format.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SBCERA PENSION PLAN
JUNE 30, 2016**

Actuarially determined contribution rates.

Actuarial determined contribution rates For SBCERA are calculated as of June 30 two years prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

Actuarial valuation date:	June 30, 2015
Actuarial cost method:	Entry age normal
Amortization method:	Level percent of payroll (3.75% payroll growth assumed)
Investment rate of return:	7.50%
Inflation:	3.25%
Projected Salary increases:	General: 4.60% to 13.75%; Safety 4.55% to 13.75%
Administrative Expenses:	0.60% of payroll

For General and Safety employees post-retirement mortality is based on the RP-2000 Combined Healthy Mortality Tables projected with Scale BB to 2020. For Safety employees, the table is set back two years for males and set back one year for females.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the three year period of July 1, 2010 – June 30, 2013.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
OTHER POST EMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2016**

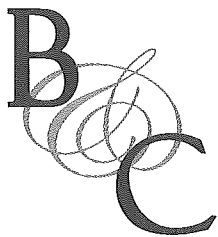
The funded status of the plan as of June 30, 2016, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Projected Unit Credit Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2009	\$ -	\$ 1,421,221	\$ 1,421,221	0%	\$ 2,581,966	55%
July 1, 2012	\$ 320,080	\$ 520,328	\$ 200,248	61.52%	\$ 3,041,756	7%
July 1, 2015	\$ 588,142	\$ 841,255	\$ 253,113	69.91%	\$ 3,353,224	8%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the Annual Required Contributions of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, as presented shows where the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Because the fiscal year ended June 30, 2009, is the year of implementation of GASB No. 45, only two years are presented in the schedule at this time. In future years, required three year trend analysis will be presented as more actuarial reports are completed.

OTHER INDEPENDENT AUDITORS' REPORT



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Governing Board
Mojave Desert Air Quality Management District
Victorville, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mojave Desert Air Quality Management District (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 16, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control. Accordingly, we do not express an opinion on the effectiveness of District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**BURKEY COX
EVANS & BRADFORD**

ACCOUNTANCY CORPORATION

Mojave Desert Air Quality Management District
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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Burkey & Cox CPAs

BURKEY COX EVANS & BRADFORD
Accountancy Corporation

Palmdale, California
November 16, 2016